R405-G

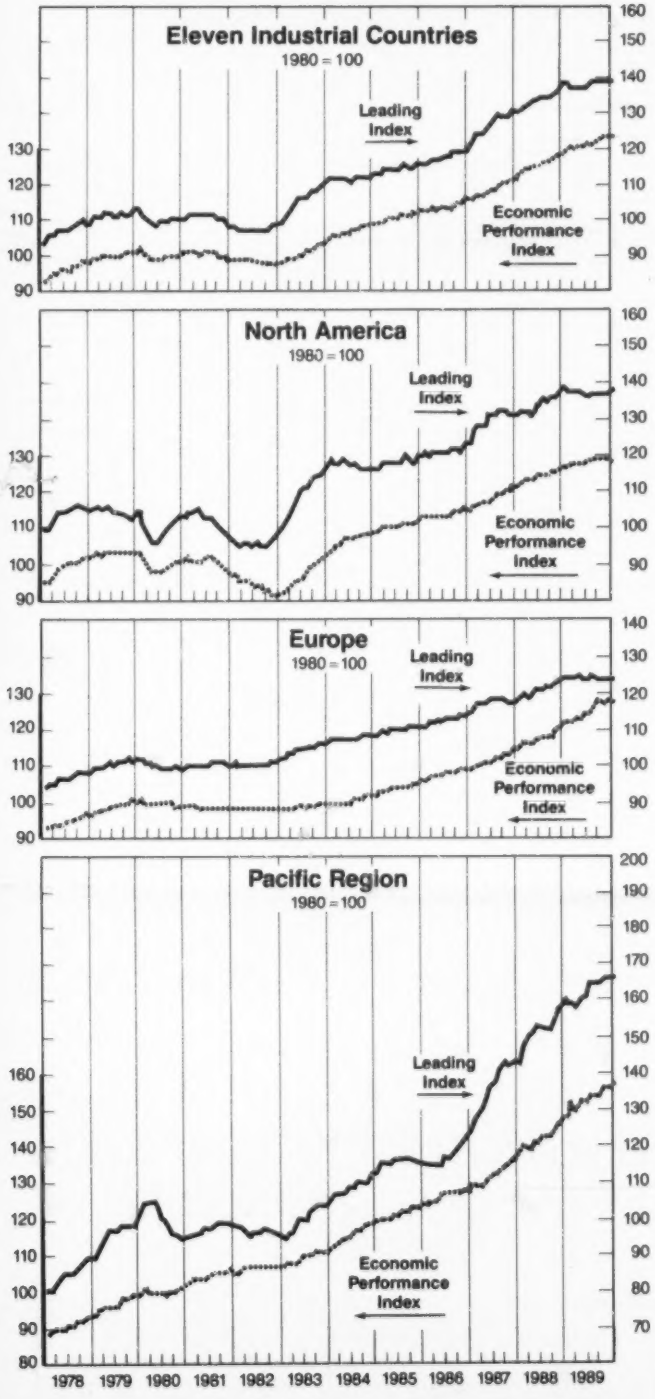
The Conference Board

Economics Program

International Economic Scoreboard

A Quarterly Report from The Conference Board **Second Quarter 1990**

WORLD BUSINESS CYCLE



The global business cycle continues to record slow expansion. The 11-country performance index is advancing at its trend rate, 3 percent, and the leading composite one percentage point slower. On a worldwide basis, it leaves a very humdrum outlook.

The regional pattern that has become almost customary in recent years—a distinctly more encouraging picture in the Pacific Region than elsewhere—prevails again at present. But the important story is the diversity from country to country.

In four countries—Japan, Germany, Taiwan and Korea—continued vigor in the business-cycle expansion seems assured. At the other end of the scale, the Australian data are quite recession-like. In between, the business cycle seems to have disappeared from the United States and Canada; those economies are without direction. In France and the United Kingdom, the performance indexes are growing smartly but weakness in the leading indexes says this won't continue. Italy's numbers are similar to France's and Britian's, except that Italy's leading index is still marginally on the plus side. Finally, the data for New Zealand are too muddled to permit a conclusion.

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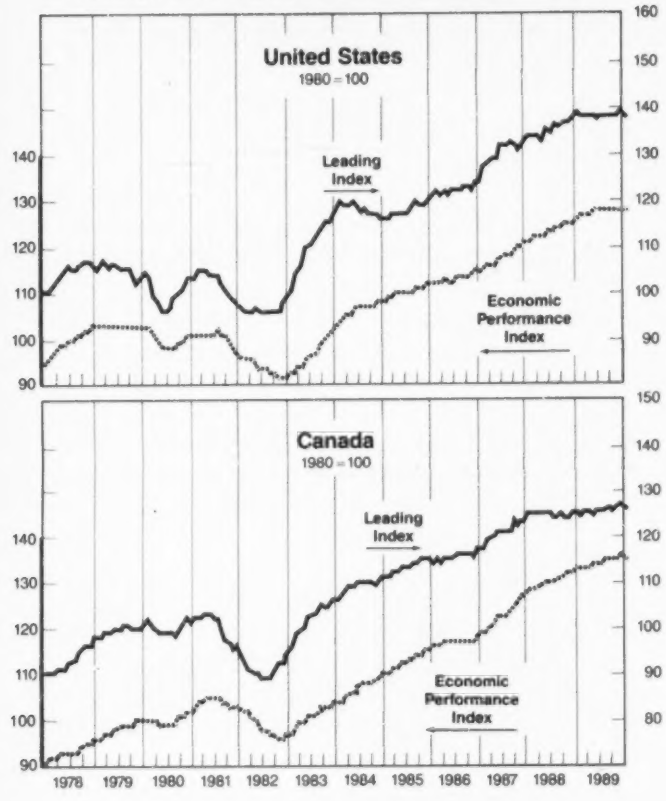
NORTH AMERICAN COUNTRIES



The U.S. Economy is directionless. Both the leading and performance indexes have been essentially unchanged for many months. It's as though the business cycle went on vacation. As long as the economy absorbs all the new entrants to the labor force, keeping unemployment reasonably low, and as long as the inflation rate holds fairly stable—both of which have happened—there's really not a whole lot to complain about. The business cycle will be back one of these months, but at the moment the signals of either boom or bust are conspicuous by their absence, so the outlook is for more of the same.

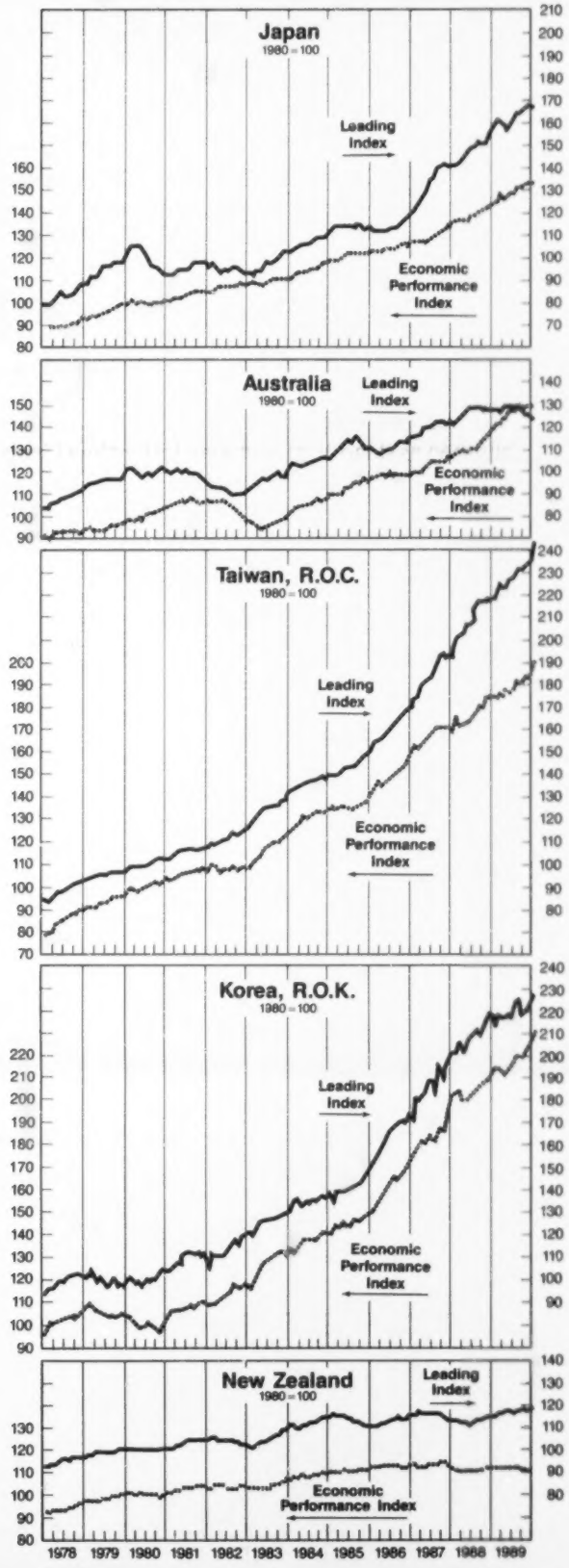
The Canadian indexes—as they are sometimes wont to do—show almost the same pattern as the United States—dull, dull, dull. Here, too, no sign of a breakout in either direction.

Summary Of Growth Rates, Eleven Industrial Countries

	Ten-year Growth Rate	*Indexes of Economic Performance Growth Rates**			*Leading Business Cycle Indexes Growth Rates**				
		6 mos. ago	*3 mos. ago*	*Latest month*	*6 mos. ago*	*3 mos. ago*	*Latest month*	*Current Reading on the Cycle*	*Latest Month Covered*
	1976-86	*annual rates, percent*							
Eleven countries	3	4	4	3	1	2	2	Expansion continuing	Jan.
Ten countries excl. U.S.	3	6	6	5	4	3	2	Expansion continuing	Jan.
North America (2)	3	3	2	1	-2	1	1	Expansion continuing, leaders weak	Jan.
Europe (4)	2	5	5	4	2	1	0	Expansion continuing, leaders weak	Jan.
Pacific Region (5)	4	7	6	6	6	7	5	Expansion continuing	Jan.
United States	3	3	2	1	0	1	-1	Expansion continuing, leaders weak	Feb.
Canada	3	3	2	1	1	1	0	Expansion continuing, leaders weak	Jan.
West Germany	2	6	5	5	6	4	6	Expansion continuing	Feb./Jan.
France	2	7	7	6	0	-1	-3	Expansion continuing, leaders weak	Jan./Feb.
United Kingdom	2	5	6	5	-1	-3	-2	Expansion continuing, leaders weak	Jan.
Italy	2	0	2	5	1	2	1	Expansion resuming, leaders weak	Oct./Dec.
Japan	4	7	6	6	11	8	6	Expansion continuing	Jan./Feb.
Australia	3	12	8	4	2	-4	-6	Expansion continuing, leaders weak	Jan./Feb.
Taiwan, R.O.C.	8	5	6	11	9	8	13	Expansion continuing, leaders strong	Feb.
Korea, R.O.K.	7	8	6	12	8	1	6	Expansion continuing	Feb.
New Zealand	2	2	0	-3	3	5	3	Upturn stalling	Nov./Jan.

* Ratio of current month's index to average index over the preceding 12 months, expressed as a compound annual rate.

PACIFIC REGION COUNTRIES



The Japanese economy is doing just fine, with the economic performance index climbing at a 6 percent pace. At last report (data through Febuary) the leading index is also showing a 6 percent growth rate, although the March plunge in both stock and bond prices has cast serious doubt on the optimistic outlook that the leaders might otherwise be signaling.

The Australian leading index dropped sharply in February, extending and intensifying the downturn that started last June. Although the performance index does not show any serious weakness—it dipped half a percent in January after reaching another record high in December—the 5-percent, 9-month drop in the leading index is strong evidence that the Australian economy is in or on the brink of a recession or the next thing to it.

In Taiwan, both the leading and performance indexes surged higher in February, testifying that the long, vigorous business expansion in that country still has plenty of life to it.

The Korean picture is much like the Taiwanese. The Korean performance index, with its 12 percent growth rate, is in fact advancing one notch faster. But the Korean leading index, although still pointing to further healthy expansion, is climbing at half that rate, 6 percent.

The data for New Zealand are muddled and perplexing. Six months ago the pattern seemed clear, a mild recession in 1988 had given way to a mild recovery in 1989. But after mid-1989, the Kiwi performance index declined and the leading index leveled off. At the moment, therefore, the direction of the economy is not at all clear.

EAST EUROPEAN EXPORT ENVIRONMENT SUGGESTS MODEST GROWTH

Historic changes rocked Eastern Europe in 1989. Communist governments that had ruled for close to forty-five years were toppled. The new governments are now developing plans to restructure these economies with greater stress on the use of free markets. The transformation towards a market system will doubtless provide greater prosperity to this area over the long run. During the period of transition, however, there will inevitably be setbacks. At present, it is not at all clear how a socialist economy is to be converted into a market-oriented system.

All of these economies would like to improve the quality of their exports and bring more of their commodities up to world-class standards. The discipline imposed by free markets will assist them in this task. In this issue of the *Scoreboard,* we provide information about how well these countries were competing in world markets in the 1980s, and what the outlook is for 1990.

Trade statistics compiled by the United Nations for Poland, East Germany, Czechoslovakia, and Hungary (taken together) show that over the eight years from 1980 to 1988 there was a 37 percent increase in the dollar value of their exports to the developed market economies—a growth rate of 4.4 percent per year. The East Germans had the fastest growth, close to 9 percent per year while Hungary, Czechoslovakia, and Poland recorded annual growth rates of 4 percent, 2 percent, and 0.5 percent respectively.

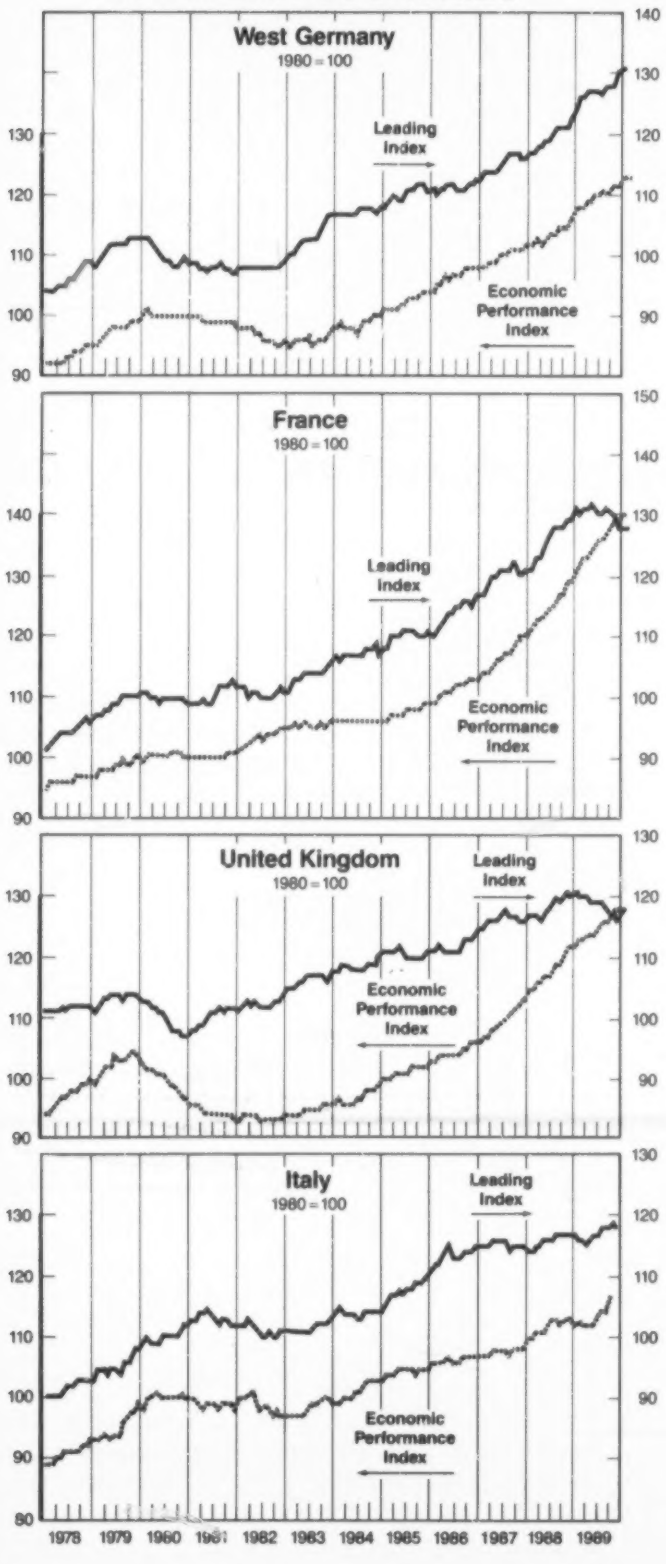
Although the transformation of their domestic economies will affect the ability of these once-socialist economies to compete in export markets, it is also clear that their sales in world markets will depend on economic conditions elsewhere. If business conditions are good in the developed world, prospects for growth of exports from those Eastern European economies should improve.

The leading indexes published in the *Scoreboard* provide advance information about prospective growth in output and income in eleven important industrialized economies, including the seven largest. Consequently, the eleven-country leading composite index can be used to forecast the exports from Eastern Europe to these eleven economies.

The accompanying chart shows the year-to-year percent changes in the total dollar value of exports from East Germany, Poland, Czechoslovakia, and Hungary (taken together) to the developed market economies, plus the corresponding forecasts based on the 11-country leading index. We find that the growth rate in the leading index for July preceding the forecast year (i.e., a lead of 6 months) accounts for about 41 percent of the variation in the actual growth rates of East European exports. This is not a close correlation, but it is enough to provide useful information about the direction of East European exports. Applying this relationship for the year 1990 yields a forecast of a modest 3 percent increase in the exports from the four countries to the developed market economies.

Obviously, these results do not take account of the changes that are beginning to take place in the East European countries. Over time, those changes are likely to result in larger trade flows to and from the Western world. What the present relationship gives us—based as it is on the record of the 1980s—is a picture of the economic setting in which these four countries find themselves at the moment. On this basis, prospects are for slow growth in exports. Perhaps the economic restructuring now taking place in the region will add to the prospects for growth in exports.

EUROPEAN COUNTRIES



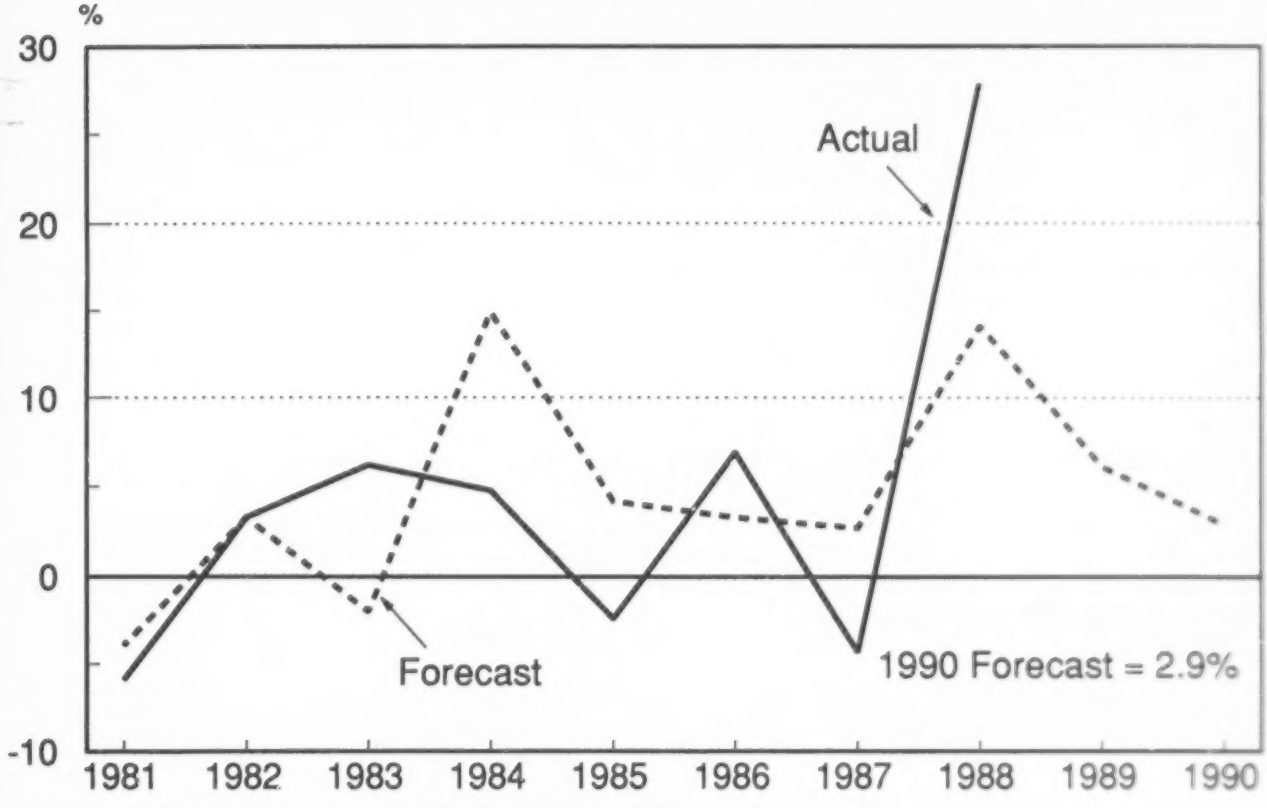
The West German leading index, which advanced steadily all last year, picked up even more steam in December and January. These continued gains are consistent with the favorable expectations touched off by the dramatic reform in Eastern Europe, especially East Germany, and they signal further strength in the German business cycle in the months ahead.

For the past three years, the French economy has climbed as steadily as and even faster than Germany. But the French early warning signs are now saying *watch out, the good times may not roll on much longer.* The leading index for France leveled off from May to September of 1989, and subsequently it has declined at a 3 percent rate.

The U.K. story is much like the French. Economic activity has continued to rise smartly, but the slow decline in the leading index, which has been going on for a full year now, says that the economy may be headed for a turn for the worse.

As usual, the data for Italy are delayed, adding to the usual uncertainty about the outlook. At last report the economic performance index is rising smartly and the leading index is bouncing around with the general direction pointed to slow growth.

GROWTH IN EXPORTS FROM FOUR EASTERN EUROPEAN COUNTRIES TO DEVELOPED MARKET ECONOMIES



Forecasts based on 11-country leading index for preceding July

Source: Center for International Business Cycle Research, Columbia University Business School

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